TESTIMONY
of
Deputy U.S. Trade Representative Jeffrey M. Lang
before the
Subcommittee on Trade
of the
House of Representatives Committee on Ways and Means
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Thank you, Mr. Chairman, for providing this opportunity for the Administration to present its views on the status of the Free Trade Area of the Americas (FTAA) and the course of U.S. trade policy toward the Western Hemisphere after the Third Western Hemisphere Trade Ministerial held on May 16 in Belo Horizonte, Brazil. This was perhaps the most important ministerial to date in the FTAA process, as the Ministers agreed to recommend the initiation of negotiations for an FTAA at the next Summit of the Americas to be held in Santiago, Chile in April 1998.

After President Clinton's visit to Mexico, Central America and the Caribbean, we expected a successful Belo Horizonte Ministerial. The President heard directly from the leaders of the region of their readiness to move forward to build the FTAA. We have entered into a new era of shared commitment to democracy and open markets. Now that we have common values, we can talk about meeting common challenges. Increased economic prosperity in the hemisphere will help solidify democracy and regional peace and will create new markets for the United States.

Before I get into the details of the Ministers' agenda and the near-term outlook for the FTAA, however, I would like to highlight some facts which demonstrate the enormous opportunities that we face in Latin America.

U.S. Trade with Latin America/Caribbean

Latin America currently is the most dynamic market in the world for U.S. exports. In 1996 our exports to Latin America and the Caribbean grew by 14.5%, reaching $109 billion. That growth rate is more than twice as great as the growth of U.S. exports to the rest of the world. And that has been the pattern throughout this decade---our exports to Latin America and the Caribbean (including Mexico) more than doubled between 1990 and 1996, whereas our exports to the rest of the world grew by 50% during the same period.

- Recently released figures for the first four months of 1997 reveal that this growth is continuing-- exports in the first four months period of 1997 grew 21.6% over the levels of the same period in 1996. Exports to five countries of the region -- Venezuela, Argentina, Brazil, Bolivia and the Dominican Republic -- were up more than 25%, and, in the case of Brazil, more than 30%, during the first third of 1997.

- If current growth rates continue over the next year, our exports to Latin America and the Caribbean will exceed our exports to the European Union (EU) by the end of 1998.

- Mexico already is on the verge of replacing Japan as our second largest export market; in fact, in April 1997 Mexico did exceed Japan in purchases of U.S. exports.

The United States also is the most significant market for Latin America's products. Last year Latin American countries increased their exports to the U.S. by 17.2%, reaching $122 billion.

Trade Liberalization in Latin America

One of the principal reasons that we are experiencing this expansion of trade with Latin America is that there has been a dramatic re-orientation in trade policy on the part of many, indeed most, Latin American countries during the past several years. The countries of the region are abandoning the protectionism and heavy government intervention of the past for market-oriented policies that will increase their ability to compete in the global economy. They have been reducing their tariffs and non-tariff barriers, due to the implementation of their Uruguay Round obligations and through unilateral reductions. State-owned enterprises are being privatized; laws on intellectual property protection are being modernized; and macroeconomic reforms and realistic exchange rate regimes have been introduced. For some countries, these changes have been as revolutionary as the changes that occurred in the economies of Eastern and Central Europe at the beginning of this decade.

The greater openness of Latin American economies has stimulated a resurgence of activity toward economic integration in the region. In fact, no region of the world has a more active agenda of free trade area negotiations than Latin America. At the sub-regional level during the past year we witnessed the conclusion of the Chile-Canada Free Trade Area (FTA), the MERCOSUR-Chile FTA, the MERCOSUR-Bolivia FTA, and the initiation of negotiations between MERCOSUR and the Andean Pact, between Panama and Chile, between Mexico and the Northern Triangle of Central America (Guatemala, El Salvador and Honduras), and between Central America and the islands of the Caribbean.

Properly done, such sub-regional agreements can contribute both to hemisphere-wide liberalization through the Free Trade Area of the Americas (FTAA) and to multilateral liberalization in the WTO. As firms and farmers face ever widening realms of direct competition through sub-regional free trade areas, they become better prepared for competing with the entire hemisphere. Sub-regional economic cooperation has also helped to foster regional and sub-regional political cooperation, transforming historical rivals into trading partners and political allies. We, therefore, welcome the trend towards sub-regional cooperation in Latin America and the Caribbean as part of the broader process of hemispheric economic and political integration that we began in Miami.

Within MERCOSUR, for example, the expansion of sub-regional trade integration has worked to the advantage of U.S. exporters and investors by bringing macroeconomic stability to a region that has historically faced recurrent high levels of inflation. MERCOSUR's emergence and its commitment to lowering tariffs over time has also worked to the advantage of many U.S. exporters by reducing overall levels of protectionism. U.S. exports to MERCOSUR have steadily climbed from $6.6 billion in 1990 to $18.6 billion in 1996--an increase of 178 percent. Like MERCOSUR, the consolidation of Central America's regional identity and the impetus to sub-regional integration contributes to our broader agenda of hemispheric integration and benefits U.S. exporters and investors, who are able to project into a single market of 30 million people.

Nonetheless, the expansion of these sub-regional preferential trade arrangements could put many American suppliers of goods at a disadvantage in such markets compared to suppliers from member countries, even when the arrangements are consistent with the WTO. In fact, any time a trade agreement is concluded that reduces barriers between the parties, and those parties do not include the United States, U.S. based producers are put at a competitive disadvantage in that market. Over 20 trade agreements have been struck in key markets around the world in just the last four years. In other words, there is a real and growing commercial cost to U.S. inaction that U.S. exporters are discovering every day. In just this hemisphere--our largest and fastest growing export market--examples are more evident as time passes:

- Canadian firms will now have access to the Chilean market (a U.S. export market in 1996 larger in value than Indonesia, Russia or India) tariff-free on a range of goods and services, as well as preferential access to invest in Chile.

- U.S. apple and pear producers, among others, are concerned about the potential loss of their Latin American markets due to Chile's preferential tariff-free, or nearly tariff-free, access to MERCOSUR, Venezuela, Colombia and other South American markets as a result of Chile's FTAs.

- For example, Chilean fresh fruit pays a 2% tariff when entering Venezuela, whereas U.S. producers pay a 15% tariff. The U.S. Embassy estimates that U.S. market share would grow from its current 39% to 67% if U.S. producers had equivalent access to the Venezuelan market.

- Brazil, Argentina, Paraguay and Uruguay--the MERCOSUR countries--comprise the largest market in South America. In the context of negotiating this partially implemented customs union, Argentina, for example, substantially raised its tariff on imported computer products to accommodate Brazil's interests. The net result was that the common external tariff affecting U.S. exports is significantly higher than the original tariff on these items in Argentina, the second largest economy in South America.

- U.S. firms not located and producing within MERCOSUR face a competitive disadvantage not only with respect to MERCOSUR producers, but Chilean and Bolivian producers as well, through MERCOSUR's association agreements with those countries.

This puts all U.S. producers, including agricultural producers which compete with Chilean fruit, Argentine wheat, Brazilian soybeans, etc., at a competitive disadvantage in these markets. The scope of this disadvantage will grow as MERCOSUR expands its association agreements.

- Venezuela, Colombia, Ecuador, Peru and Bolivia--together constituting the ANDEAN PACT--comprise a market of 100 million people and a GDP greater than $260 billion. As part of its efforts to develop a common external tariff, the import tariff on textile goods, for example, was raised from 5 to 15%, thus inhibiting the export of U.S. textiles to this growing market.

- As part of its integration efforts, the ANDEAN PACT negotiated common intellectual property rights (IPR) disciplines (Decision 344) that have now been utilized to effectively block the Ecuadorian implementation of a bilateral IPR agreement with the United States, thus denying U.S. IPR owners of the best legal protection possible in the Ecuadorian market.

Of course, it is essential that all sub-regional arrangements adhere scrupulously to the disciplines in the WTO (GATT Article XXIV and GATS Article V). Basically, this means that such arrangements must cover essentially all trade between the member countries and must not raise the level of overall restrictions on countries outside the arrangement.

At present most of the FTAs in the hemisphere, other than NAFTA, are essentially tariff elimination arrangements. They are not as comprehensive as NAFTA in covering other trade and trade-related measures, such as government procurement, investment, intellectual property protection (IPR), sanitary and phytosanitary measures, product standards, and services. Thus, there is a danger that various sub-regional arrangements could develop incompatible provisions in the non-tariff areas. This would not be in anyone’s interest. It would be beneficial, therefore, to move rapidly to develop FTAA-wide disciplines in these areas.

From the standpoint of U.S. interests, we certainly should not stand on the sidelines as sub-regional arrangements are negotiated. We don’t want to be disadvantaged by standing outside preferential agreements in the markets of Latin America. Nor do we want to be a bystander as the standards for trade behavior in the next century are negotiated.

Moreover, our ability to engage outward-looking countries in negotiations---either in the FTAA or bilaterally---can solidify a nascent movement toward the open trade policies that we espouse and practice. Central America, for example, is demonstrating an impressive willingness to relate to the United States on the basis of reciprocal market opening rather than as a recipient of unilateral trade preferences. This was the unambiguous message of Central American presidents meeting with President Clinton last month in San Jose, Costa Rica.

It would be premature to make specific commitments beyond Chile to negotiate FTAs with individual countries in the hemisphere, but we should work with like-minded countries on the building blocks of more open trade and investment. Among these building blocks are: Bilateral Investment Treaties (BITs), government procurement agreements, bilateral IPR agreements, and closer cooperation on sanitary and phytosanitary matters.

In addition, we should promote accelerated implementation of Uruguay Round commitments by the developing countries in our region. This would be of great significance in the areas of customs valuation, trade-related intellectual property protection (TRIPs), and trade-related investment measures (TRIMS).

It is very disappointing in light of the region's generally positive record on trade liberalization, therefore, that very few countries in Latin America have yet joined the Information Technology Agreement (ITA) that was negotiated at the WTO Ministerial in Singapore (only Costa Rica, El Salvador and Panama have joined the ITA). It makes no sense for a country to stand on the sidelines of the information technology marketplace. Certainly one of the essential building blocks of any country's competitiveness is to eliminate tariffs on IT products by the year 2000.

Active participation in upcoming WTO negotiations on financial services, agriculture, and other elements of the WTO's "built-in agenda" also should be part of each country's negotiating agenda.

Finally, countries should take steps to ensure safe and healthful working conditions, as well as the wide dispersion of benefits, from expanded trade and investment.

Free Trade Area of the Americas (FTAA)---U.S. Perspective

The Miami Summit Declaration and Plan of Action provide the overall framework for the construction of the FTAA. It set 2005 as the latest date to conclude FTAA negotiations, and it included the following commitments by all 34 Leaders:

- balanced and comprehensive agreements to maximize market openness through high levels of discipline covering tariffs; non-tariff barriers (NTBs) in goods and services; agriculture; subsidies; investment; intellectual property rights (IPR); government procurement; product standards; rules of origin; anti-dumping and countervailing duties (AD/CVD); sanitary and phytosanitary (SPS) procedures; dispute settlement; and competition policy;

- concrete progress by the year 2000;

- to further secure the observance and promotion of workers' rights; and

- to make our trade liberalization policies and our environmental policies mutually supportive.

At the Denver Trade Ministerial in June 1995, the 34 countries agreed that the FTAA will be a "single undertaking", i.e., all countries ultimately will assume all of the obligations of the FTAA---no free riders.

It also was agreed at Denver that the FTAA will be WTO-consistent. Thus, the FTAA will have the WTO obligations as its threshold. But there is no reason to negotiate an FTAA if we stop at existing WTO provisions. The FTAA needs to go beyond the WTO and be future-oriented. It must be responsive to new technologies and new ways of doing business, and it should draw from the best, most appropriate practice in the sub-regional arrangements. In other words, we aim for the FTAA to be "the state of the art" in trade and investment agreements when it is concluded.

Belo Horizonte Trade Ministerial

As I mentioned, the Third FTAA Trade Ministerial meeting took place last month in Belo Horizonte, Brazil, and next April a Summit of the Americas will be held in Santiago, Chile.

- We must use the period between Belo Horizonte and the next Summit to ensure that our Presidents and Prime Ministers can initiate the negotiating phase of the FTAA at the Santiago Summit. At Belo Horizonte, the countries of the hemisphere announced that they are ready to meet this objective.

- The Trade Ministers at Belo Horizonte agreed that they will recommend that the Leaders at Santiago initiate negotiations for the FTAA. We know that negotiations will proceed at different paces for different subject matters. Some issues are more complicated or politically sensitive than others, but we should start on the full range of issues included in the Miami Declaration and Plan of Action at the same time to signal our seriousness in meeting the 2005 deadline for concluding negotiations of the FTAA. It was clear at the meeting in Belo Horizonte that nearly all countries agree on this approach rather than negotiations in stages.

- The Belo Horizonte Ministerial set out a very clear work plan for the FTAA countries so that Trade Ministers can provide their Leaders with the <u>essential</u> <u>recommendations</u> for initiating negotiations.

    -- It is not necessary to complete an exhaustive analysis of every possible issue in the negotiations before we can start the negotiating process. Most issues get clarified and defined only through the process of negotiation itself. We experienced that in the Uruguay Round as well as in the NAFTA negotiations.

    -- The 11 Working Groups of the FTAA (market access; customs procedures and rules of origin; investment; services; government procurement; intellectual property; sanitary and phytosanitary practices; technical barriers to trade; subsidies, countervailing duties, and antidumping; competition policy; and smaller economies) already have accomplished substantial preparatory work, especially in the area of identifying current practices in the hemisphere---both in national legislation, regulation, and procedures and in international obligations. Several of the inventories on country practices are now available to the public for the first time, and can be accessed through the official FTAA Homepage on the Internet (www.ALCA-FTAA.org). Additional output from the Working Groups will be published throughout this year.

-- As was agreed at the Cartagena Ministerial last year, the Belo Horizonte Ministerial established the Working group on Dispute Settlement, to be chaired by Uruguay.

-- The principal task of the 12 Working Groups over the next six months is to prepare recommendations on alternative possible issues and negotiating approaches in each substantive area.

-- The Ministers also created a Preparatory Committee (PrepCom) of the 34 Vice Ministers to review the Working Group recommendations. The PrepCom has nine months to prepare its recommendations on how the negotiations should proceed--including objectives, approaches, structure and venue--for decision by the Trade Ministers at their meeting next February in San Jose, Costa Rica. The PrepCom must also offer advice on the establishment of Negotiating Groups--how many Negotiating Groups should there be, and what should each one cover.

-- The Ministers meeting in San Jose will then make their decisions based on those recommendations; so it will be essential that the preparatory work has progressed sufficiently to initiate negotiations.

-- Our leaders at the Santiago Summit then will outline a plan of action directing the course of negotiations in order to be able to conclude negotiations by 2005, at the latest.

-- At the same time, the Tripartite Committee (the Inter-American Development Bank, the Organization of American States and the Economic Commission for Latin America and the Caribbean) will conduct a feasibility study of a temporary FTAA administrative secretariat to support the negotiations at minimal cost. Washington and Miami have been included among the alternative sites that will be studied as illustrative cities for determining relative costs.

- Throughout the construction of the FTAA, we will remain sensitive to the vast disparities in economic size among the FTAA countries. On the one hand, we have continental-size countries with populations in the hundreds of millions. On the other hand, we have countries with populations and GDPs the size of Arlington County, Virginia.

- These smaller economies face both enormous opportunities and significant challenges in the FTAA negotiations. We must ensure that they are able to participate fully in the negotiations (e.g., by providing technical assistance). And in the negotiations themselves, we must be willing to accept appropriate transition measures in those areas of greatest difficulty for the smaller economies.

- However, we must be intellectually rigorous in our approach. For example, we cannot have a situation in which 28 countries out of 34 claim that they are "smaller economies".

- Of course, the United States already provides substantial support for expanded trade opportunities for the countries of the Caribbean and Central America through the Caribbean Basin Initiative (CBI).

- In addition, the President is working with Congress to enactlegislation that will offer eligible CBI countries enhanced trade preferences predicated on meaningful policy reforms that will help prepare these countries to participate in the FTAA.

• We also must be responsive to the various economic interests in our societies who wish to express their perspectives on the issues in the FTAA.

  - We have seen how the Americas Business Forum has evolved since the late Secretary Brown hosted the first Forum in Denver in June 1995.

  - We need the advice of the private sector to help us define our objectives and priorities in the FTAA negotiations.

  - Of course, we define the private sector broadly, to include all of the economic and political interests in society with a stake in our trade policy. Thus, in addition to the business sector, organized labor and environmental groups have an equal right to provide input for Ministers.

  - The Ministers agreed in Belo Horizonte on the importance of dialogue and consultation with labor and other groups to make the FTAA negotiating process transparent. This will ensure all interested members of our societies have the opportunity to participate, thereby enhancing the political credibility and substantive quality of the process.

The clear, concrete instructions presented by the Ministers in this year's Declaration should be judged a major achievement. The United States consistently has pressed for rapid movement in carrying out the Miami Declaration's vision of the FTAA. We will continue to work toward that end in the coming year. We are gratified to note that increasing numbers of our trading partners in the hemisphere share the same dedication and level of ambition, which bodes well for successful negotiations.

Conclusions

The ability of the U.S. to influence the pace, the objectives and the content of the FTAA, however, depends on a grant of trade agreements implementing authority (the so-called fast track authority) that is comparable to the authority granted previous Presidents--both Democrat and Republican. As I noted before, if we are unable to shape this process and other countries continue to forge trade and strategic alliances without us, we lose. We lose our credibility; we lose our leadership role; and our companies and workers lose their competitive advantage. We have already begun to see the real costs to our companies and workers of trade agreements concluded without us. Fast track authority is essential to reverse that trend.

We have reached the point where the nations of the hemisphere share our commitment to democracy and fair competition in open markets. They want to work with us to create the FTAA in the shared belief that it will expand our economies, improve our trade competitiveness in the global economy, make our people more prosperous, strengthen democracy, and build regional peace. We must seize this opportunity to create a solid foundation for peace and prosperity in our hemisphere.